

30 September 2022

Harvest Technology Group Ltd

Presentation confirms progress

Harvest Technology Group Limited (ASX:HTG) licenses its proprietary video compression and encryption technology for low-bandwidth, high-latency applications needing secure real-time streaming video and audio communication. The company delivers products and solutions for video, audio and data transfer from anywhere, via satellite or terrestrial networks, regardless of congestion or quality. HTG's products and solutions enable real-time monitoring of remote locations, real-time feedback for field technicians, and secure video and audio conferencing. The company held an investor briefing last week which highlighted the real progress made in customer acquisition, technology, and expansion and development of the distribution and sales team and partnerships. HTG announced a contract with a European defence force earlier in September. This was followed by a contract with a large (70 vessel) offshore support and heavy lift operator. Harvest's presentation went on to detail achievements against phase two of the company's strategic plan. Despite an uncertain economic outlook globally Harvest is confident that a pipeline of new customers and growth in existing relationships leaves the group well positioned for FY23.

Business model

HTG offers products and solutions which enable real-time monitoring of remote locations, real-time feedback for field technicians, and secure video conferencing. HTG has two trademarked product platforms, Infinity Nodestream and Remote Inspection System (RiS). The company is on the verge of large-scale roll-out of the Infinity Nodestream secure video transmission product suite through reseller agreements with the major maritime satellite communications operators. It has also launched its own Remote Inspection System (RiS) and a US business focused on enabling remote field technician support via real-time video over low-bandwidth networks and satellite. HTG licenses its hardware and software solutions to customers. The company has a Perth headquarters and has expanded over the past 12 months, establishing sales offices in the US and UK/EMEA regions. HTG is currently focused on converting reseller agreements with Speedcast and Marlink and partner leads with Inmarsat, the world's largest maritime satellite service providers, into actual licensed customers with a target of 1,000 licences by end-CY22.

Monthly Recurring Revenue growth on track

Harvest's management acknowledged the impact of global headwinds on operations, strategy and sales, and have adopted a closer focus on capital efficiency, targeting specific growth opportunities. There was no change to expectations for growth in Monthly Recurring Revenue in the September quarter. Key points of the presentation included: Release of upgrades to core products; Customer diversification continued with >40% growth in customer numbers; Implementation of an integrated global sales team with three new representatives; Greater focus on communications with investors and customers; and development of a new marketing hierarchy and updated collateral.

Valuation base-case at \$165m or \$0.28/share

Our valuation is based on a DCF using a Beta of 1.47 and risk-free rate of 3.5%. We have modelled three cases differentiated by customer conversion rates, cost of hardware manufacture and licence fees received. Our downside case values HTG at \$122m, while we can estimate upside to \$345m. The crucial period to achieve sufficient momentum in sales to justify these valuations is in CY22 with results from Q3, Q4 and outlook supportive.

Historical earnings and RaaS estimates (in A\$m unless otherwise stated)

Year end	Revenue	EBITDA rep.	NPAT rep.	EPS* (c)	EV/Sales (x)	Price/Book (x)
06/21a	8.3	(7.5)	(10.3)	(1.4)	3.5	0.80
06/22a	2.1	(11.0)	(14.5)	(2.5)	17.8	0.94
06/23f	8.0	(3.0)	(4.7)	(0.8)	5.0	0.98
06/24f	13.3	1.9	0.0	0.0	3.3	1.08

Source: Company data; RaaS Advisory estimates for FY23f and FY24f; *EPS normalised for one-time items

Share Details

ASX code	HTG
Share price (29-Sep)	\$0.074
Market capitalisation	\$43.6M
Shares on issue	588.9M
Net cash 30-Jun-2022	\$4.497M
Free float	~64%

Share Price Performance (12 months)



Upside Case

- Faster conversion of current leads
- Strong Australian government take-up
- Inmarsat uses as part of key selling proposition of FleetXpress satellite service

Downside Case

- Lower conversion
- Slower take-up due to economic/COVID issues
- Difficulty in scaling/supply of hardware

Catalysts

- MRR hits \$340-380k target in September quarter
- Reaches own goal of 1,000 licences by end-CY22
- Further evidence of take-up of technology
- Evidence of reduced cash burn in CY23

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FINANCIAL SERVICES GUIDE

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Effective Date: 6th May 2021

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